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Leadership approach in small size enterprises during crisis time
– A case study of two enterprises operating in Russia



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Leadership performance has always been an important factor of company success and nowadays this topic gets much attention.

The present study aimed at investigation of leadership style and peculiarities during crisis time with special focus on small size enterprises. Within framework of the study several definitions of leadership were considered and reviewed. Furthermore the most prevalent leadership theories (including trait, contingency, behavioral theories as well as transactional and transformational leadership theories were reviewed and discussed. The study provides a review of the relevant literature on the cultural orientation (Russia) and its impact on leadership approach, types of business crisis and crisis leadership approaches and identifies leadership competences relevant to that topic.

Two small size enterprises representing food trade sector and business travel sector (number of employees 6-11) were selected as case study examples. Study was performed with focus on leadership style and core competences. For this purpose a questionnaire was to collect empirical data on leadership and evaluate leadership style and competences. Focus was paid to differentiation between transactional and transformational styles, analysis of autocratic/democratic leadership behavior and evaluation of task- and human leadership orientation. Special emphasis was made on evaluation of core leadership competences relevant to crisis management. As a result of that, analysis of the questionnaire data on competences enabled identification of strong and weak positions of leadership with respect to crisis management. Based on the analysis of results, several points of attention and action for leadership were determined and relevant improvements suggested.

Comparative analysis of case study Companies A and B revealed similarities in leadership style and behaviors. It was found that in both enterprises transactional style, autocratic behavior and task-orientation of leadership prevailed. Plausible explanation for these similarities was hypothesized and discussed. Potential contributions from cultural, crisis-caused and knowledge-caused factors were discussed.

KEYWORDS: Leadership, crisis, competence, cultural orientation, culture, knowledge, case study

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1. Introduction

Global changes tend to occur very often and have enormous influence on social and economic processes. The technological breakthrough has enabled immediate information exchange and created opportunities for globalization. We witness how the new products are being created and only in few months and in some cases in few weeks these products are sold worldwide. Companies evolve and aim at conquering new markets: steady growth and expansion become essential factors of success and even survival. There are numerous examples when inability of expanding business resulted in loss of competitive advantage followed by merge with a bigger market player. Thus, most of today entrepreneurs look for opportunities to increase their businesses and develop new markets in order to meet the challenges of tomorrow. In these respect ambitious goals set by the shareholders and permanent comparison with competitors make modern business environment extremely aggressive.

In chase of profit companies often forget that sustainable growth is not the same as blowing a bubble. Global crisis of 2008 has revealed many problems of today's economic model. This economic crisis is considered by many economists as the most severe financial crisis since the Great Depression times as Wikipedia reports . The crisis has touched each and every aspect of our live and basically there has not been a single individual who would not have experienced sad consequences of this phenomenon. Many small and medium-sized businesses went bankrupt while large companies faced unprecedented drop in share price.

In the time of high uncertainty, big risks and unpredictable future when no one knows what is going to happen tomorrow a big responsibility falls on leader's shoulders. Here we approach a key concept, a base for successful business operation and prosperity – the concept of leadership. Leadership is very important basically at all stages of company life: from the very start up through growing to sustaining success and continuous improvement. However, the real power of leadership comes to the foreground not during the stage of maintaining the

company's operation but when the business faces hard times, as for example during financial crisis times. In this scenario leadership qualities of the management and team members start playing essential role. Leaders get a heavy burden of both responsibilities for company survival and for employees whose job ultimately depends on the business situation. The role of leadership in crisis management is a hot topic which attracts much attention from the researchers worldwide. Importance of such a research in terms of financial and social stability is hard to underestimate.

Therefore, as for the topic of my thesis I have selected investigation into the role of leadership on business performance during crisis. Case study will be performed on a small scale private enterprise (<10 employees) operating in Russia. Focus of the thesis study was directed onto analysis of leadership style of the chosen case company, understanding of leadership style(s) on overall company's performance and evaluation of potential gaps in crisis management. Research included extensive open literature examination and the key concepts are reflected in the relevant literature review. Based on the research findings and analysis of the literature potential solutions for improving leadership style and advises on crisis management have been proposed for the case company.

2. Literature review

In this chapter relevant literature on the topic of the thesis is reviewed. Focus is paid to definition of the term *leadership*, analysis of different definitions and interpretation of this term. Also discussion of the concepts behind various approaches of leading the organization will be provided.

2.1 Definition of leadership

Every organization wants to be successful and every business strives for prosperity. This aspiration is an inalienable part of overall success. Here the question arises: why some organizations keep on going further while others fail?

We often hear that behind very successful organization or company stands a great leader. It is hard to disagree with this simple at a first glance and at the same time concise statement. While successful organization or prosperous business is something not difficult to envision, it is much more challenging to describe who a true successful leader is and what the differences between *leading* organization and *managing* organization are.

Leadership is a phenomenon which we are talking about every day often without knowing strict definition of the term (Le Grand, 2015). Business leaders, big organization leaders, even country leaders are often named. Such people as Steve Jobs, Nelson Mandela (Stengel, 2008), Caesar to name few are instinctively associated with great leaders.

Etymological base of the words lead, leader, leadership is Anglo-Saxon word *laed* which means “path” or “road”. Thus, a leader might be defined as a person who is guiding the group of people through the road to a common goal.

On one hand the term leadership is instinctively clear, on the other hand there are numerous definitions which make comprehension of the concept more difficult and even confusing (Kets De Vries). Researchers usually define leadership according to their individual perspectives and the aspects of the phenomenon of most interest to them. Stogdill

concluded that “there are almost as many definitions of leadership as there are persons who have attempted to define the concept” (Stogdill, 1974).

Basically after Stogdill described his observation there appeared many more new definitions of leadership. For example Northouse defines leadership as “a process whereby an individual influences a group of individuals to achieve a common goal” (Northouse, 2010). Similar to that, Yukl in his book describes leadership as “the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives” (Yukl, 2013).

Most definitions of leadership include two things: a process and intentional influence. Influence is put over other people to direct, order, and facilitate activities and relationships in a group or organization. Despite the fact that many leadership definitions use these two ideas there are not many more similarities between different definitions. The differences are mainly conceptual and disagree in fundamental determination of leaders and leadership processes.

Since there are numerous concepts of the leadership phenomenon present in literature and different researchers often do not agree on a common definition it is important to consider several concepts and analyze them. Importance is caused by the fact that interpretation of research results strongly depends on the definition of the key concept. The literature review therefore first considers several approaches to defining the leadership concept, then different leadership styles are reviewed and influence of leadership on organizational success is analyzed.

The goal is to provide an overview of different leadership concepts and to determine which concept is currently in use by the case company. In the review the following approaches will be considered: trait theories, contingency theories, interactional framework for analyzing leadership, behavioral theories, transactional and transformational theories and finally the crisis leadership. Comparison of leadership style in the case study will be performed with concepts and theories described in literature. Based on empirical data

evaluation of potential leadership gaps will be performed and suggestion on improvements will be made.

2.2 Trait theories

In the early beginning of leadership studies the trait approach was one of first. Trait is a distinguishing quality or characteristic which typically belongs to one person. This term includes personal characteristics, aspects of character and other individual peculiarities.

According to Yukl this approach claimed that a person needs certain inborn peculiarities to be a leader (Yukl, 2013).

Thus, trait theory is based on the assumption that leaders are born, but not made. Thus, leadership is understood is something which a person can get from the nature but cannot foster or educate inside himself. Traits are important to a person to be successful in leadership roles. Yukl states that “that inherent capabilities are absolutely important for a person to be effective in these positions (Yukl, 2013).

Early research on trait theories was performed by Stogdill (Stogdill, 1974). He focused mainly on relationship between the leadership skills and personality and was looking for correlations between them. The author identified that a common characteristic of a leader was an ability of person to help to achieve the common goal. Stogdill also noted that leaders which are effective in one situation should not necessarily be effective in another situation.

Other early researchers have been confident that the traits are essential for leadership effectiveness and that the traits can be identified by comparing leaders with non-leaders and effective leaders with non-effective (Mann, 1969).

The research in this area has shown that certain leadership and personality traits are important for a leader to be successful. For example, intelligence, conscientiousness, being open-minded, and open for communication are important trait for a leader (Zaccaro, 2007). Nevertheless little evidence was provided to support the theory that leaders’ traits are inborn despite the fact that several common traits and characteristics were identified.

Recently there has been few review papers published on leader traits which summarized and reviewed historical data (Derue et al., 2011; Hoffman et al., 2011; Zaccaro, 2007).

Despite the fact that trait theory was widely accepted in the past it is one of the most criticized theory of leadership. The major criticism of this theory points out its simplistic approach. Trait theory focuses mainly on leader's personal characteristics and describes how leaders' effectiveness is perceived by followers. However, this is not the same as actual effectiveness. Also as mentioned above, there was not much of correlation between traits identified and leadership effectiveness. Also Stogdill noticed that leaders' effectiveness can be dependent on a situation and circumstances.

Thus, the trait theory is not complete leadership theory and explanation of leadership based on traits does not have any predictive function (i.e. it is very hard to say that a person with certain traits will become an effective leader).

2.3 Contingency theories

As it has been mentioned in the previous chapter trait theory was much criticized because of incompleteness and inability to predict leaders' effectiveness based only on given traits and skills. Thus, two leaders with different sets of traits and skills might be effective in the same situation; however, a given set of skills does not guarantee overall success in all situations. Leaders can be compared to each other in various scenarios. On one hand, this approach does indeed provide useful information, on the other hand this approach is indirect and does not give an answer to the question what type of leadership is the best in a particular situation.

A more direct approach can be used to determine how certain leadership traits, skills and behaviors influence leadership effectiveness. There is a set of theories called *contingency theories* which can explain leadership effectiveness in a given situation based on analysis of leadership characteristics. In contrast to trait approach, contingency approaches of leadership description are more versatile as they appeal to situations – something which has a dynamic nature (Fiedler, 1964).

Basic assumption of all contingency theories is that the course of action is contingent (or in other words dependent) upon internal and external factors and circumstances (Le Grand, 2015). It means that a certain leadership style can be effective in one situation but not necessarily will work well in all situations. Hence, there cannot be generalization of a particular leadership style. Additionally, leadership style depends on the situation and can be adjusted to best cope with that. Thus, there is no “golden rule”.

There are six major contingency theories: path-goal theory, situational leadership theory, leader substitute's theory, the multiple-linkage model, least preferred coworker (LPC) contingency theory, and cognitive resources theory (Yukl, 2013).

The LPC contingency model developed by Friedler describes leadership style which is measured by individual leadership orientation (Fiedler, 1964). LPC stands for “least preferred

coworker”. In this theory leaders need to describe a person with whom work is going least well. There are three situational variables which impact the relationship between the leader trait and subordinate performance (Fiedler, 1964). These three variables are leader-member relations, position power and task structure. Using bipolar scale from low to high leaders can be categorized. Leaders with high LPC scores are more human oriented and leaders with low LPC score are oriented on the target. High LPC score leaders which are relation-oriented can be effective in situation with favorable circumstances and less pressure thus leaders can focus more on human relations. Opposite to that when situation is less favorable leaders with low LPC score might be more effective as they are more task oriented.

The path-goal theory of leadership describes what specific leader’s style fits best the subordinates and help organization to achieve its goal. The theory was first introduced by Martin Evans and then further developed by House and Mitchell (for original publications see (Evans, 1970),(House and Mitchell, 1974)). The path-goal theory does not provide a detailed instruction how to best influence employees and achieve the goal but it generally goes through the following steps: determine employee and environment characteristics, choose a leadership style and pay focus on employee motivational factors which will help them succeed. Independent variables in this theory include leader’s behavior and characteristics of the task. The path-goal theory assumes that leaders are flexible in changing their behavior depending on situation to make employees excel in task accomplishment.

Situational leadership theory (original publication by Hersey and Blanchard in 1977 (Hersey and Blanchard, 1977)) tells that there is no best style of leadership. According to this theory there is a balance between task orientation and relation orientation for leaders. Effective leaders adapt their styles to the skillfulness and maturity of employees and the organization in relation to the task. Therefore, aspects of situation are taken into account. Two important aspects of the theory include a choice of leadership style and maturity level of individuals or organization. [see p. 173 in (Yukl, 2013)].

Leadership substitutes theory first developed by Kerr and Jermier tells that different situational factors can improve, neutralize or substitute certain leader behaviors (for original publication see (Kerr and Jermier, 1978)). In this theory substitutes are variables which make leadership unnecessary for followers. Also substitutes can reduce importance and participation of leadership. For example, substitutes include employee's abilities and professional orientation. The more skillful subordinates are the less participation of leadership required. Substitutes might also include characteristics of task and organization. Enhancers include characteristics which strengthen leadership. In contrast to enhancers, neutralizers are downgrading leadership effect and prevent organization from further development (for example when employees are indifferent to rewards). This theory, however, was criticized because of lack of longitudinal studies (most of studies attempted to find correlation at a given point of time) and because of conceptual weakness (hard to determine specific substitutes and neutralizers).

The multiple-linkage model developed by Yukl describes how a leader can influence variables to improve group effectiveness (Yukl, 2013). The performance of the group depends on six variables: member effort, member ability, and organization of the work, teamwork and cooperation, availability of essential resources, and external coordination with other parts of the organization. Leaders can influence these variables to improve the performance of the organization via different ways. For example, reduce limitations, work on resources, setting priorities or investing in employment of people with good coordination skills to improve teamwork. Conceptual weakness of this theory is in inability to tell which leader behaviors of impact above described variables in a given situation. This theory gives a more general overview rather than a guideline for action.

High uncertainty of external factors especially nowadays when the business environment is very volatile and depends on many factors, the job of a manager becomes very complex. In practice it means that it is almost impossible to work out a standardized set of rules, traits or

behaviors that a leader needs to possess and master in order to be effective. An ability to “read” the situation and adapt behaviors makes a difference between a leader and an effective leader. In this respect contingency theories emphasize that an effective leader needs to understand 1) the goal requirements and 2) the limitations of a certain situation as well as to better understand interpersonal interaction and other related processes. On the basis of key outputs from the situation analysis effective leaders form a course of appropriate actions and follow up.

The contingency theories are difficult to be applied in practice because they are very complex and hard to test. On one hand they provide useful information about leadership and effectiveness. On the other hand these theories do not consider in depth leadership processes that might transform behavior of followers.

2.4 Behavioral theories

Behavior in general sense means “the way a living creature acts”. Having been applied to study on leadership it grabs another meaning: the way how leaders behave and influence the organization.

Behavioral theories appeared in response to criticism to trait theories. Authors of behavioral theories focus on study of specific behaviors of a leader (Skinner, 1969). According to the authors which introduced this theory, behavior of a leader is the main factor of leadership influence and the result is the primary measure of effectiveness.

The behavioral theory suggests that a certain leadership characteristic can be fostered via applying stimuli and recording the response. Hence, the supposition of born leaders is not applied anymore because anyone can be made a leader given that an appropriate system of stimuli and trainings is applied.

Behavioral theory defined two major types of behaviors that have correlated with each other according to the results of empirical studies involving 1800 people. These were defined as Consideration (People Oriented behavioral Leaders) and Initiating Structure (Task Oriented Leaders) .

The task oriented leaders focus most of their behaviors on the organizational structure and the operating procedures. They like to keep control over situation. Task-oriented leaders take care about staff motivation; however, this is not their primary concern. Such leaders favor active behaviors that are in line with the following ones: initiating, organizing, clarifying and information gathering. All these behaviors are aimed at successful task completion which brings success.

Opposite to task oriented leaders there are people oriented leaders. Their priorities lie mainly in the plane of satisfaction of people needs. It does not mean that achieving goals is unimportant. Such leaders seek to additionally motivate their subordinates and reinforce human relations. They achieve good results through formation of the team and emphasizing

reliability. Leaders with focus on people favor behaviors that are in line with: encouraging, observing, listening and coaching/mentoring.

In summary, behavioral theory assumes that leaders are made, but not born. Leaders' actions can be observed, learned and reproduced by others thus enabling leverage of skills.

2.5 Transactional theories

Many years ago leadership approach was practically dominated by two factors focusing on task and relationship behaviors. This kind of approach for leadership is called transactional leadership theory (Bass, 1985).

Basic assumptions of this leadership theory are:

- System of rewards/punishments is necessary
- Employees are not motivated by themselves (control is needed)
- Employees have to strictly follow the rules to achieve success

Let's consider these assumptions starting with interaction between the leader and employees. Transactional leadership is theory build on principle of interaction between the leaders and followers though a system of punishment and reward (transactions). Focus in transactional theory is paid on the role of supervision which defines organization and determines group performance. The functions of leaders are determined by the success of task accomplishment. Leader's actions are understood in the matrix of control behaviors and maintaining certain team performance. Such an approach is therefore characterized by mutual benefits from interaction between leaders and organizations. For leaders it is important that the task is accomplished accurately and on time and for the team it matters which reward they receive for good performance. As pointed out earlier, in transactional approach an exchange between participating parties takes place and this exchange is very important for success.

As the organization performance is driven further to achieving the task though implementation of a system comprising sanctions and reward it resembles in my opinion to a certain extent a policy of the stick and the carrot. Good behaviors and actions are reward while negative performance affected by the stick or a system of introduced penalties. In the original formulation sanctions were called *contingent rewards*.

In transactional leadership it is important that work (type, amount, quality) is clarified to achieve a reward. This is how motivation is controlled. Use of penalties and other corrective actions was described by a term *passive management by exception* (Bass, 1985).

The transactional leadership puts too much attention on near future goals and does not take care about long term organization performance improvements. Overloading the organization with rules and details might lead to decrease in team dynamic and diminish the team creativity. Thus generation of new ideas might be retarded. In the clear environment where levels of uncertainty are low and the issues of organizations are relatively simple the transactional approach might work quite well – for example is the working discipline is a bottle neck for improving the performance or in the case where development and implementation of procedures will minimize risk, losses and maximize benefit. Leaders overemphasize importance of details and short-term goals, as well as standard rules and procedures.

The theory assumes that employee's behavior needs to be motivated and the motivation is a simple reward. In case the behavior is not correct leadership might apply punishments to correct behaviors. This is the only can transaction between the leader and the employees.

A transactional leader does not look several steps forward in leading the organization to a position of market leadership. Idea is to make sure that everything works well today. Although this can be considered as insufficient and ineffective transactional leadership might be very useful in preparing the ground for future progress. Also, for example in the circumstance of financial instability and high business volatility transactional leadership approach might be very useful. Such leaders are effective in making decisions on costs cutting and improving performance.

Care should be taken in implementation of the transactional leadership principles in the organization. Rules and procedures are indeed important to build solid interactions within the organization and help much in the beginning avoid chaos and nuclear functions and

responsibilities. However, overloading organization with rules leads to decrease in team dynamics and creativity.

2.6 Transformational theories

Transactional leader interacts with employees only if something going wrong. With such a concept in mind it is practically impossible to bring organization to the next level. Reasons behind are very simple: there is no improvement actions and no actions of change involved in transactional leadership. By applying a system of rewards and punishments transactional leader might balance out certain problems and fix current performance but in the long run another type of leadership is required. Moreover, it becomes harder to maintain the promises of rewards and increase pay to the employees if their behavior is according to the leader expectation – nowadays organizations have a complex system of approval for any recognition and wage increase.

Here we describe another leadership theory called transformational leadership. This is very different from transactional leadership. The concept was introduced by expert James McGregor Burns in 1978 (Burns, 2010). The idea defined by Burns stated that “leaders and their followers raise one another to higher levels of morality and motivation”. Bernard M. Bass later developed the concept of transformational leadership further (Bass, 1985; Bass, 1990; Bass, 1999). Such an approach involves personal identification it tries to change behavior of the organization.

The theory of transformational leadership focuses on how to increase team work, motivation and collaboration across employees.

There are four elements of the transformational leadership theory (Avolio, Waldman and Yammarino, 1991; Humphreys, 2005).

- Individual consideration
- Intellectual stimulation
- Inspirational motivation

- Idealized influence

Let's consider all four elements in more detail.

Individual consideration – we are all different and therefore we all have different motivations. Some come to work because they are money driven. For some people things they are doing might be their passion. There is nothing right or wrong – simply motivations are different. The leader needs to understand employee's needs, act as a mentor and listen to people needs and concerns. These actions will cultivate aspiration in employees and foster motivation for growth and development.

Intellectual stimulation – when the leader supports open discussions, share of ideas and creativity – the team has much more chances to succeed. Intellectual stimulation means that leader encourages creativity and autonomy among employees. It is important that the leader challenge assumptions without criticism thus creating a positive atmosphere of idea sharing and exchange of opinions. In such an organization employees are not afraid to innovate and figure out better ways to work.

Inspirational motivation – vision is very important to achieve high goals. All big leaders have at the beginning brave and far going plans. The transformational leader must pass a clear message about vision for the future. Also clear expectations and commitments are required. When people see the bigger picture and they understand what is expected from them and how their work integrates in the whole organizational scheme – it motivates them to invest more time and efforts in their job and make them encouraged and optimistic.

Idealized influence – leader's job is about building trustful environment of integrity and fairness in the organization. Idealized influence can be explained as leader's approach to create values, ethical principles, build trust and take responsibilities. When create trustful environment employees get more respect and confidence in their leader.

Focus in transformational theory is paid on connection between the leaders and employees: transformational leaders increase the spirit, motivation and morale of their

followers. Transformational leader emphasizes what a certain individual or a team member can do for the benefits of organization. Such a leader introduces a model of integrity, inclusion and trust. Without integrity organization will not be able to achieve high goals and succeed in very competitive environment. Transformational leaders set clear goals because clarity is crucial for a balanced and dedicated team work. The goals must be high and another feature of a transformational leader is that he or she has high expectations. Big goals help the team stay motivated and tuned.

Transformational leaders provide visions of a better future and as mentioned above inspire trust and fairness through self-confidence and conviction (Gina Hernez-Broome, 2004). They develop trust, respect and admiration from followers.

Transformational leaders inspire people: in order to additionally motivate the team going further towards completion of the high-set tasks transformational leaders spend much efforts on encouraging others and providing supports and recognition. In many cases a decrease in performance might be observed after some time since project initiation even if the goal is very big and promising. Transformational leaders motivate and inspire people: to stay tuned, motivated and energized human being need a feeling of small victories, achieving and celebrating milestones. That is why transformational leaders are very much concerned about support and recognition of the team.

The world and the market have dramatically changed since middle of 20-th century. Many low-educated and low-qualified jobs have either disappeared and have been replaced with machinery labor or shifted to the third-world countries where human labor is cheaper. The more common trend is a team of educated professionals. Besides, the structures of companies shifted towards flatter organization hierarchy. This is understandable if we take into account that professional see themselves as lean teams rather than a hierarchical superior-subordinate cluster. Transformational leadership approach fosters autonomy and challenging work and that is why it is very important for follower's job satisfaction.

Also transformational leaders care about empowerment (Quinn and Spreitzer). Process of power delegation and helping other people feel that they really do impact on organization present and future enables new opportunities for the team performance. Having a feeling that team members do really make a contribution and change to the organization rather than executing job tasks implies that organization members are empowered. John P. Kotter includes empowerment in his list of the most important factors which determine ultimate success of organization (Kotter, 2007).

Yukl developed some recommendation for transformational leaders (Yukl, 1999):

1. Develop a challenging and attractive vision, together with the employees
2. Tie the vision to a strategy for its achievement
3. Develop the vision, specify and translate it to actions
4. Express confidence, decisiveness and optimism about the vision and its implementation
5. Realize the vision through small planned steps and small successes in the path for its full implementation

There is much attention paid to the concept of emotional intelligence (D., R. and A., 2002). Goleman presented data that a leader's ability to resonate emotionally with others is a better predictor of effective executive leadership than is general intelligence. In turn, the concept of transformational leadership emphasizes importance of emotional intelligence of a leader (Goleman, 1995). Emotional intelligence is described as the ability to manage ourselves and our relationships effectively and it consists of four fundamental capabilities: self-awareness, self-management, social awareness, and social skill. Each capability, in turn, is composed of specific sets of competencies (Goleman, 2000).

Nowadays transformational leadership approach is getting more popular across different organization worldwide. The reason behind might be the fact that transformational leadership enables creation of an effective organization and ensures continuous improvement of the

organization. An unusual example of implementation of the transformational leadership is the Finnish Defense Forces where a so-called Deep Leadership coaching process is applied (Kinnunen, 2011). This example nicely demonstrates that the transformational leadership approach is versatile and may be applied in all types of organizations.

2.7 Russian national culture and it's likely effects on Russian leadership culture

In this chapter we will review some peculiarities of the business culture in Russia. Special attention will be paid to a connection between the business culture and leadership culture. Since the research part of the thesis is dedicated to studying leadership approaches in two case enterprises operating in Russia this chapter information described in this chapter might be very important both to better understand empirical results from the case studies and to formulate research conclusions.

Speaking about specifics of the business culture in Russia it is important to mention about a contradictory duality of the value system which is caused by geographical position of the country. Russia is a Eurasian country that has a boundary location between the Eastern and the Western civilizations. In the Russian value system therefore it is possible to notice qualities peculiar to the East (collectivism, dependence on family, inequality in relations, etc) as well as qualities characteristic for the West (enterprise, self-independence, individualism),

The modern Russian business culture is not uniform. Managers and leaders in the companies have qualities which are very much different than that subordinates have. For example, attitude to risk, responsibility and initiative can be very different. Many modern companies in Russia try to implement the American business approach with limited success and it is not a surprise – Russian and American business cultures are very different. Maybe the closest business culture to Russia is the French one. Scandinavian, German and Indian business cultures are also go well with the Russian business culture.

Cultural peculiarities and orientations are very important as they may effect a very broad range of life aspects. According to the research conducted by Schwartz cultural orientation may affect many quite broad number of life aspects including, for instance, “women’s equality, public expenditures, the social net that governments provide, and the way governments protect their citizens from internal and external threats and violence”. Business culture may also be affected by national cultural orientation. Schwartz describes Russia as east-European country that has higher hierarchy in the culture and society compared for example to Western n countries (Schwartz, 2008).

In his research Hofstede et. al described that countries and regions differ in “identities, values and institutions” (Hofstede, Hofstede and Minkov, 2010). The study attempted to introduce a quantitative system based on the development of several descriptive indices: Power Distance Index (PDI), Individualism Index values (IDV), Uncertainty avoidance Index (UAI) and Masculine Index (MAS) to name a few.

Let’s consider few indices to better understand which peculiarities might be expected in the leadership approach taken in the Russian business environment. According to Hofstede, countries with high PDI score, or in other words with large power distance, have clear hierarchy in organizations with distinct difference between high and low levels. Typically for such countries there is a gap in the payroll between managers and subordinates, managers rely on superiors and on formal rules and subordinates expect to be told what to do. Russia has PDI of 93 and takes position #6 in the rank which is quite high (for comparison Malaysia heads the ranking with PDI of 104 and Finland takes position #68 with PDI of 33).

Another interesting parameter to review is Individualism Index Values (IDV) which according to Hofstede reflects (to some extent) how wealthy a certain country is. All wealthy countries scored high on IDV while nearly all poor countries scored low. Russia is in the middle of the ranking (overall 104 countries were considered) with IDV of 39 and position #39-40 in the rank. In the light of our aim to understand how culture impact leadership

approach it might be important to note that in the countries with relatively low IDV more collectivist values are present and “people are born into extended families or other in-groups that continue protecting them exchange for loyalty” (page 113 in (Hofstede, Hofstede and Minkov, 2010)). The latter might mean that leaders would expect subordinates to be as much loyal to the company as possible.

The last criteria described by Hofstede et al. which we would like to review here is so-called Uncertainty Avoidance Index (UAI). In the cultures with high UAI the following characteristics are expected: people tend to stay at the same employer longer, there is a more difficult work-life balance, an emotional need for rules, need to be busy and urge to work hard, entrepreneurs are constrained by existing rules and motivation is achieved through security and esteem or belonging. To mention, Russia scores very high in UAI (95) taking position #7 in the ranking. From the leadership perspective it would be logical to expect that leaders can be quite tough at communication and during decision making and companies, hence, would be more likely choosing transactional rather than transformational approach.

2.8 Business crisis

In his chapter we will review a definition of a term “crisis” and the most common cases of business crisis that companies might face nowadays..

In general by definition “crisis” is an unusual situation which does not happen often and very hard to predict in advance. It is a sharp turn in the normal pace of events, a sort of a transition state wherein traditional means of achieving goals become inefficient and irrelevant. As a result the probability of unpredictable situations increases dramatically. A crisis, no matter how big it is and what kind of crisis it is, has the potential to cause catastrophic damage to organizations and individuals.

There exist several kinds of business crisis as listed below:

A) *Reputational crisis* for example because of some failure in products (for example: VW had manipulated emission measures of car catalytic system or some pharmaceuticals have

caused deaths of customers or serious side effects or poisons have been found in milk products for babies in China)

B) Sudden big damages like fires, explosions and accidents

C) Strategic traps/crisis, which have been developed over the time within some years, like in the Nokia Mobile Phones

D) Deteriorating financial results because of

- 1) Recession/declining demand and prices in the markets
- 2) Increased competition
- 3) Own increasing costs or inefficiencies (decreasing efficiency)
- 4) Other reasons:
 - 4-1) Gradual type of development
 - 4-2) Sudden type of development

E) Financial crises:

- 1) Decreasing key figures
- 2) Shortage of money / Cash crisis → risk of bankruptcy

F) Other kinds of crisis

This category might include, for example, operating under harsh economic conditions caused by declining national economy. Also any kind of governmental restrictions or policies can complicate business operations and results in crisis situation for the business.

Despite the fact that all these types of crisis belong to one big group called business crisis they might require different approaches in management and therefore different strategies should be applied in each case.

A) Strategies for Reputational crisis

In today's world of aggressive competition and endless fight for a customer corporate reputation is priceless (Eccles;, Newquist; and Schatz, 2007). Any damage to the company's reputation causes monetary losses and might lead to the loss of competitive advantage on the long term. An important step to manage the reputation is building a picture of enterprise

strengths and weaknesses. Open literature suggests quantifying the impact of risk on company reputation, create baseline for measurement and improvement, establish a continuing process for detection and management that can affect reputation of the company, provide the enterprise with the proper instructions to manage and improve reputation, coordinate management actions to prevent the potential for crisis (<https://www.marsh.com>).

B) Strategies for Sudden big damages

In the case of crisis caused by the significant damage of accident two things come to the first: immediate actions and communication. It is highly important to take proper actions that prevent further damages to the company assets. Another important factor that requires attention is timely and accurate communication and updates by the management and leadership team. The latter requires strong presence of relevant leadership skills such as communication with media and stakeholders.

C) Strategies for Strategic crisis

As mentioned above the strategic crisis happened in Nokia Mobile phones which resulted at the end in loss of competitive advantage and business positions in the market of mobile phones and electronic devices. Managing strategic crisis is a very complicated task. Success there depends on many factors: company's culture, size, agility, core business principles to name a few. Briefly, it is much easier to cope with such type of a crisis at early stages. Therefore management/leadership should be capable of recognizing the crisis symptoms and be empowered enough to implement relevant changes. Literature on that matter is available (Bland, 1995).

D and E): Strategies for Financial types of crisis

Considering the financial crisis management it has been decided to join groups D and E together because consequences of crisis from the group E might results in symptoms included in the group D. Therefore, these two groups are very much interconnected and we hypothesize that similar management strategies can be applied to cope with crisis. There

might be a plenty of reasons why financial numbers of the company do not look good anymore. Massive literature is available on this matter covering practically all aspects of the financial reasons and describing potential strategies to resolve (see for instance (Pazarbasioglu; et al., 2011)). General strategy and leadership behavior are very much case-based and there is no golden rule in this case. Strategies which are relevant for gigantic companies cannot be applied directly to small shops, for example, as availability of resources (human, financial, administrative) is not comparable.

As has been reviewed above different types of crisis might require different strategies and approaches to cope with difficulties. Despite the difference that exists there certain leadership skills which can be useful during crisis time and might help the company to resolve issues faster and with less losses. In the next chapter we will review the literature dedicated to this topic with focus being paid on small size enterprises.

2.9 Crisis leadership

In the previous chapter of the literature review several concepts to the leadership have been considered and reviewed as well as the concept of business crisis has been described. Some of the leadership concepts are relatively old and not being applied often amongst young organizations. New concepts of transformational leadership are becoming very popular and receiving much attention because there are numerous successful examples worldwide of such approach.

Ultimately it is up to a leader to decide which approach to choose in a particular situation. Often a single leadership approach does not provide the full range of tools and interaction patterns to cover the required field of transactions with employees. Thus, leaders might consider extracting the best from several approaches and try to apply a combination of techniques depending on the situation.

Despite numerous leadership techniques and tools available for leaders, modern organizations nowadays face another serious challenge: crisis situation which require special approach. For example, many countries still suffer from the financial crisis of 2008 which had impact almost on every type of business in the world to more or less extent. In spite of almost 8 years passed since the financial crisis occurred many organizations still experience consequences of this event. Several state economies (including successful European countries) never recovered their economies to the before-crisis level.

What should be a proper leadership approach during crisis time? How to run business in the times of high volatility and ensure employees are engaged and feel secure? Which leadership traits and skills are the most effective during crisis time? In the previous chapter we described that crisis is a multi-angle phenomenon which has several types. In particular business crisis has several sub divisions and each company crisis case might fall under a certain category or even be a combination of different crisis types. Despite the fact that

different types of crisis require individual strategies and there is no one golden rule to cope with that, there are relevant leadership skills which might be helpful for the company during crisis times.

In this chapter literature available on crisis leadership will be considered and reviewed. Specific focus will be paid to research materials dedicated to crisis management in small-sized enterprises. We will not consider here literature and case studies on crisis management and crisis after natural disasters, wars and catastrophes since it is out of scope of the thesis.

Despite the desire to see crisis as a sudden an event in fact it should be considered as a process. Many researchers tend to focus on process nature of crisis rather than viewing it as a discrete event. Crisis is not a discrete event but rather high intensity nodes in ongoing streams of social interaction”(’t Hart, Heyse and Boin, 2001).

Literature on crisis management is very wide and varied. Research papers published on crisis management and more specifically on crisis leadership are often case studies which present more observational viewpoint rather than analysis of root causes.

One of the key challenges in crisis leadership research is a limited number of studies available. Schoenberg describes crisis leadership as one of the most important and “yet least studied factors in crisis management” (Schoenberg, 2005).

Wooten and James reported that “there is virtually no research that identifies the knowledge, skills or abilities necessary to lead an organization through these phases” (Wooten and James, 2008).

The pioneers of the crisis management research Pauchant and Mitroff concluded that the engagement of high level managers is important crucial for developing a strategy in crisis management and making sure that everyone in the organization cooperates (Pauchant and Mitroff, 1992).

In a crisis situation leadership becomes collective and dynamic which means that leaders should demonstrate very strong sense-making skills (Weick, 1988). Intuitively such

competencies as ability to make decisions, take responsibility, act fast and firm, creating organizational capabilities and ability to manage multiple issues and lead courageously (or lead by examples) can be considered as appropriate for crisis leadership.

There were attempts in literature to determine what roles and responsibilities are effective for a crisis leader. Thus, James and Wooten (James and Wooten, 2005) identified six core leadership competencies:

1. building a foundation of trust
2. creating a new corporate mindset
3. identifying the (not so) obvious organizational vulnerabilities
4. making wise and rapid decisions
5. taking courageous action
6. learning from the crisis to effect change

Boin et al. suggested five crucial tasks for leadership (Boin et al., 2005).:

1. sense making of the crisis
2. making decisions to deal with it
3. framing and making meaning of the crisis to stakeholders
4. terminating the crisis to restore normalcy
5. steering the organization to learn from the crisis

Communication skills of leader are very important for crisis management. Hwang and Cameron (2008) found that certain perceptions of leadership style during crisis times influence determine the type of organization communication. For example, when transformational and democratic styles are utilized in the organization during the crisis times stakeholders expect accommodative communication strategies (Hwang and Cameron, 2008).

Later research by Wooten and James attempted to further identify leadership competencies associated with crisis management and pointed out that there are other important competencies than only communication. Authors report that “learning and

development are at the root of what we consider to be crisis leadership” (Wooten and James, 2008). As mentioned above the authors argued with sources that limited the role of leadership to only communication by stating that “viewing crisis management only through a communication lens undermines other important leadership responsibilities”.

Leadership competencies required crisis management depends on a stage of crisis. In literature researchers select five phases that represent crisis (Wooten and James, 2008):

1. signal detection
2. preparation and prevention
3. damage containment
4. recovery
5. learning

In the first phases leaders should be able to sense crisis situation and announce it appropriately. In the second phase leaders are expected to prepare as much as possible to mitigate the risks. The third phase requires leaders to minimize damages and crisis from expanding further. In the fourth phase leaders are expected to plan and execute strategies aimed at recovering the organization and returning to normal business operation. In the final fifth stage leaders should extract right lessons from the crisis situation and deliver the key learning to the organization.

Still despite the fact that researchers attempt to identify key leadership competencies and there is overlapping in a number of competencies named for a crisis leadership James and Wooten point out that “the best organizational crisis leadership is generally not evident, because these firms are less likely to experience a crisis, and when a crisis does occur they are managed in such a way that the sensationalism of the crisis is weakened” (James and Wooten, 2005).

Osborn et al. proposed a contextual theory of leadership, identifying four distinct contexts: stability, crisis, dynamic equilibrium and ‘edge of chaos’ (Osborn, Hunt and Jauch,

2002). It was pointed out that different leadership models fit different circumstances. Humphreys (2005) used an analysis of two historical leaders to compare the merits of transformational versus other (servant) leadership in volatile times. Humphreys concluded that transformational leadership is the more effective approach in turbulent and volatile times (Humphreys, 2005). The results of showed that people prefer transformational leadership approach during the times of crisis (Boehm, Enoshm and Michal, 2010). However, the second hypothesis of Boehm et al. that transactional leadership would be preferred during times of normality was not supported. Although respondents expressed desire for transformational leadership during a crisis they also showed higher desire for transactional leadership compared with periods of stability (Boehm, Enoshm and Michal, 2010). One of the interpretations might be that organizations prefer a stronger leader during crisis times because stronger leaders are associated with order and control which are necessarily during high turbulent situations (see above mentioned five competencies identified by James and Wooten). When given a preference, however, they seek leaders who display transformational characteristics.

The study of Jaques resulted in few empirical research findings on the leadership roles in crisis management, including preparedness and prevention (Jaques, 2012). From analysis of the research material these identified leadership roles were categorized under eight broad headings:

1. Encourage a proactive crisis culture
2. Establish and enforce standards and processes
3. Prioritize and set an example
4. Properly assess the full range of risks
5. Promote open upward communication
6. Build relationships before the crisis
7. Be ready to deal with the news media
8. Encourage a learning environment and share experience

De Bussy and Paterson reported that despite the fact that transformational leadership is highly effective in a crisis it is very hard to achieve and maintain in times of relative stability (de Bussy and Paterson, 2012). It requires and continuous focus and the ability to sustain employees motivation, which many business and political leaders have failed to achieve.

As has been discussed above crisis leadership in organizations is receiving increased attention nowadays. There are studies dedicated to leader-follower relation in the small and medium sized enterprises (SMEs) (Cope, Kempster and Parry, 2011). Comparatively little is known of crisis leadership approach awareness among such organizations (Parnell, 2015),

In global companies crisis planning is assigned to local (regional) centers (Pang, Cropp and Cameron, 2006). In this respect small and medium-sized enterprises do not have huge resources compared to global international companies. Leadership approach, style, skills and competencies become even more important. Small and medium-sized companies form a core of state economy and illustrate success of the nation. Therefore it is crucial to study crisis leadership in small and medium-sized enterprises and expand knowledge in this important field.

I decided to dedicate my study to the small sized enterprise in Russia where companies need to operate during hard economic conditions caused by internal political situation, external sanctions and oil market crisis of 2014.

For this purpose analysis of leadership style in the organization will be performed and results evaluated and compared with literature data. Obtained results will be further analyzed, and followed by conclusions and directions for future.

3. Research methodology

3.1 Theoretical data collection

Theoretical information for the thesis was acquired through intensive literature search using available search platforms (Google Scholar, ScienceDirect). Also information was retrieved from the books and open internet resources.

3.2 Empirical data collection and questionnaire

Empirical case study of the chosen small sized enterprise is based on a quantitative research and the research data was acquired using a survey questionnaire on leadership (Lietz, 2008). Russian language was used in survey because respondents were expected to understand questions completely and provide full answers. After data is collected results are translated to English. Questionnaire was compiled in accordance with recommendation on quantitative research available in literature (Boynton and Greenhalgh, 2004). The author decided to build own questionnaire due to the following reasons: 1) to specifically address research questions, 2) get valuable experience with questionnaire construction.

In addition, organization members are interviewed to collect more data on current leadership style and its peculiarities. Data obtained from personal interview is summarized and discussed in the corresponding section together with survey results.

The goal of experimental data collection and analysis was to:

- Identify current leadership style used in the organization
- Determine main leadership qualities and behaviors
- Analyze strong and weak sides of the leadership
- Compare data collected with literature data
- Suggest pathways for improvement

3.3 Validating research and ethical remarks

As personally agreed with the managers of the company A and B the results of this research will be communicated to case companies A and B after the thesis is finalized. By the time of the thesis writing the results from the empirical studies as well as theoretical analysis of the results obtained have not yet been shared. The motivation is to share a final work with potential recommendations.

4. Results and Discussion

Two small size enterprises were chosen for case studies. The rationale behind the choice of the companies consists of the following:

- Both companies are located and operate in Russia (which makes it easier for a researcher being Russian and native speaker to get in touch with the company's management and collect valuable information)
- Companies represent small size enterprises which is a very important business case
- Chosen enterprises operate under harsh economic conditions; have comparable sizes

As the research part of the thesis is focused on understanding leadership strategies of the two case companies it is worth commenting on a type of crisis the companies might have. Types of business crisis were reviewed in the Chapter 2.6. In researcher opinion the case study companies A and B both fall under category F (other types of crisis). The chosen companies operate under harsh economic conditions. The state economy is still recovering after the financial crisis of 2008, oil price crisis in 2014 and recently imposed economic sanctions due to geopolitical situation. The researcher does not have access to financial and other details of the companies which would enable a more detailed categorizing of the crisis type. To the best knowledge the companies do not have any reputational crisis and have not yet been through any severe damages or financial crashes.

Empirical results of the research were collected through the questionnaire (See Appendix). The questionnaire was designed to address the following questions:

- What leadership style is currently practiced in the company
- Is leadership autocratic or democratic
- Is leadership human or task-oriented
- What leadership capabilities special to crisis management need attention

The survey on leadership was carried out among all employees. Employees were provided with a questionnaire (Appendix) and instructions how to fill it responses. Employees were offered to choose a degree to which they agree or disagree with a given statement about leadership.

First part of the questionnaire was dedicated to determination of leadership style currently practiced in the company. For this purpose ten statements containing information about characteristic aspects of transactional or transformational leadership styles were given (see Appendix). For example, a statement related to transactional leadership style described rigid system of punishment and rewards which is a strong indication of transactional style as discussed above.

Second part of the questionnaire consisted of statements aiming at discrimination between autocratic and democratic approaches in leadership behavior. Two questions/statements were designed for autocratic and two for democratic behavior (see Appendix).

Third part of the questionnaire targeted at determination whether leaders were more human or task-oriented. A statement was designed for discrimination between task- and human-oriented behaviors (see Appendix).

The last fourth part of the questionnaire was dedicated to evaluation of leadership skills relevant to crisis management. A set of eight skills was proposed on the basis of available literature on crisis management (Boin et al., 2005; James and Wooten, 2005; Jaques, 2012).

Results of data analysis collected via the questionnaire are presented below for two small size enterprises (SME). Data is presented as percentage of total respondent answers considering all questions associated with a certain topic. For example for estimation of percentage values related to transactional leadership style answers of all respondents to all questions related to transactional style were put together and then percent fraction of answers (from strongly agree to strongly disagree) was calculated. \the same was repeated for all other topics mentioned in the questionnaire (Appendix).

4.1 Case study Company A

Company A chosen for the case study is a small size enterprise with six employees and the general director which can be considered as a leader for the current study. The case study company does trading business in the food sector.

4.2 Analysis of leadership style. Case Company A

We begin analysis of leadership style in Case Study Company A with differentiation of transactional and transformation leadership styles.

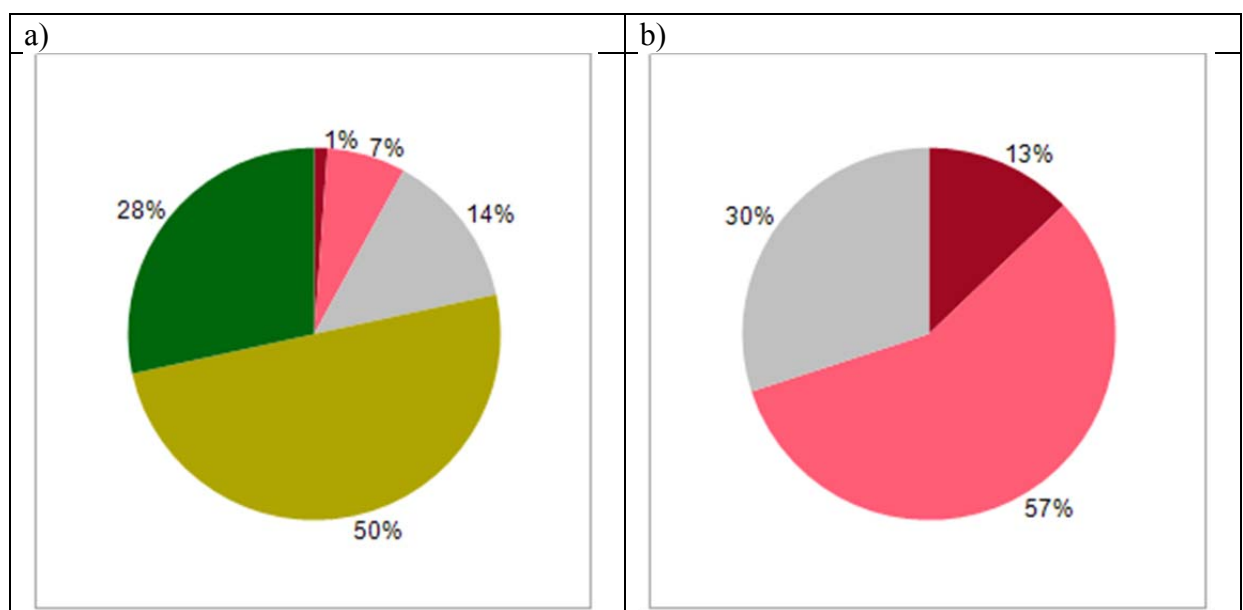


Figure 1. Distribution of respondent data on a) transactional and b) transformational leadership styles. Case Study Company A. Colors: ■strongly agree, ■agree, ■neither agree or disagree, ■disagree, ■strongly disagree.

Figure 1 displays distribution of respondent feedback on statements related to transactional and transformational leadership styles. In the modern society leadership tends to practice transformational style as it enables creation of stronger organization and better engage employees (Bass and Avolio, 1990).

Surprisingly, 28% of respondents strongly agreed with statements that leadership in Company A implements transactional methodologies, while 50% agreed with proposed descriptions. Only 8 percent (1% being strongly disagree and 7% disagree) of respondent answers showed opposite opinion on transactional leadership style statements. A relatively small fraction of answers collected (14%) formed a group of neutral opinion. According to the results collected the vast majority of employees (78%) agree with opinion that leadership of Company A utilizes methodologies associated with transactional style. Through these answers employees clearly point out that leadership uses a system of reward and punishment characteristic for transactional style. The same can be hypothesized about system of strict control and micromanagement rather than practice of empowering employees.

The fact that only 14% percent of answers hit neutral opinion related to transactional leadership style indicates that employees have a strong and well-defined opinion about leadership style. This data correlates with description provided above. It could have been expected on the basis of results on transactional leadership style that transformational style would receive opposite numbers, and, hence, employees would likely disagree with statements about transformational leadership style.

In fact, this hypothesis has been confirmed quite well as illustrated in Figure 1-b: 70% of respondent answers on statements related to transformational leadership style showed disagreement with 30% being neutral. In contrast to the results on transactional leadership style where answers were split in ratio 78-14-8 (agree-neutral-disagree), transactional

leadership style data showed more consistent shift to disagreement side with 0-30-70 distribution.

Undoubtedly, these numbers point out that leadership in Company A does not often practice transformational methodologies which are considered to be the most efficient nowadays even for crisis management operations (Boehm, Enoshm and Michal, 2010). A larger fraction of answers in the neutral area (grey color) might indicate that employees for example were not familiar with transformational leadership practices before and did not have right experience in that. Therefore, it could have been more complicated to express an opinion strongly and more clearly.

The second part of the questionnaire was designed to address dilemma concerning autocratic or democratic leadership style. Generally autocratic leaders try to impose will on their employees and often force them to deliver on goals. Such leaders tend to appeal on materialistic needs of employees rather than finding higher motivational motives. Democratic leaders in contrast to autocratic ones are not afraid to empower employees and delegate power because they have trust in people. Such leaders are motivated to invest into human resource and enhance human capital¹. Often leaders with democratic style of management seek for opportunities for employees irrespective the level of performance because they know that on longer term such investments in human development will bring much benefit to the company.

¹ Here there is a link between autocratic/democratic leadership behavior and transactional/transformational style. There are certain similarities between these concepts. One can hypothesize that transactional leadership style would be more associated with autocratic behavior and transformational style would have more of democratic leadership behaviors.

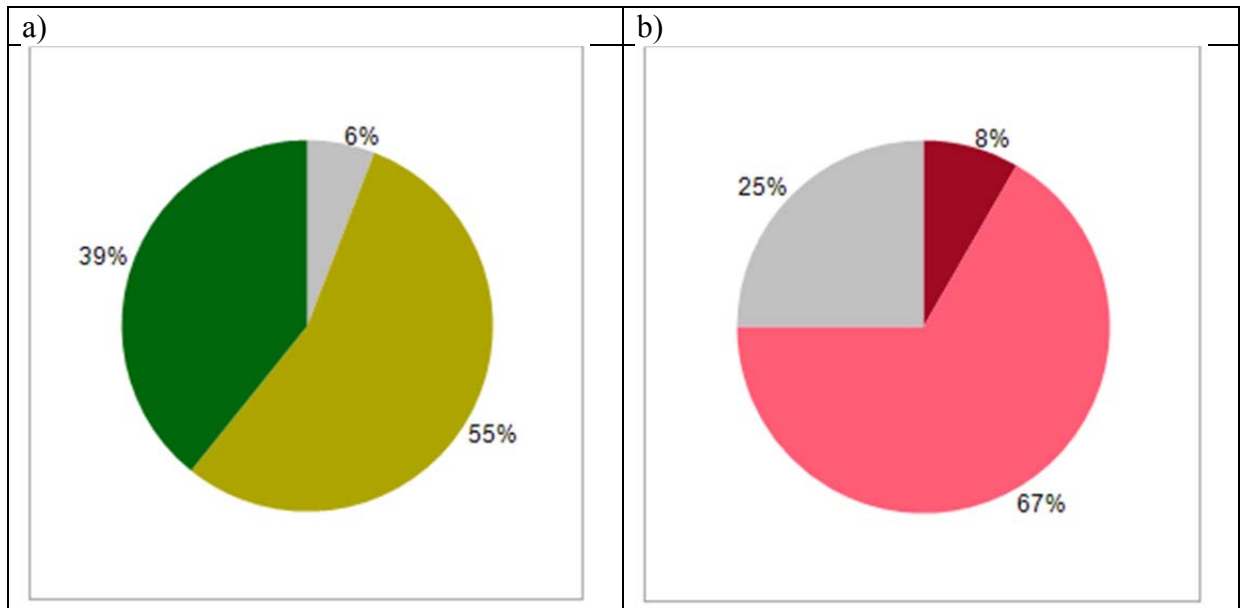


Figure 2. Distribution of respondents data on a) autocratic and b) democratic leadership styles. Case Study Company A. Colors: ■strongly agree, ■agree, ■neither agree or disagree, ■disagree, ■strongly disagree.

Figure 2 displays respondent answers on statements related to autocratic leadership style. 55% of answers collected showed agreement with statements about autocratic style while 39% disagreed and 6% neither agreed nor disagreed. Slight preponderance on agreed part indicate the leadership does demonstrate autocratic behavior. However we cannot exclude almost 40% of opposite opinion and 6% in the grey neutral area. Taking into consideration small sample size (only six employees) and relatively low number of questions (two) such a difference cannot be considered significant.

As in case with transactional and transformational style we could have anticipated similar distribution of answers for democratic behavior. However the data showed opposite trend. 67% of answers disagreed with statements that leadership in Company A demonstrates democratic-oriented practices. 25% were in the grey zone and 8% strongly disagreed that leadership is for democratic approach.

Based on these results we might hypothesize that most likely leadership is for autocratic management rather than for democratic one since there were not answers agreeing with statements on democratic style. The fact that there is some split in opinion about autocratic

style might point out to certain preferences of leadership and favoritism towards some employees. However, this assumption is preliminary and is not based on any experimental evidence.

Third part of the study was designed to understand whether current leadership in Company A is about task-oriented or human-oriented. Famous social scientist Rensis Likert introduced this alternative scale to autocratic-democratic measurement (Likert, 1961).

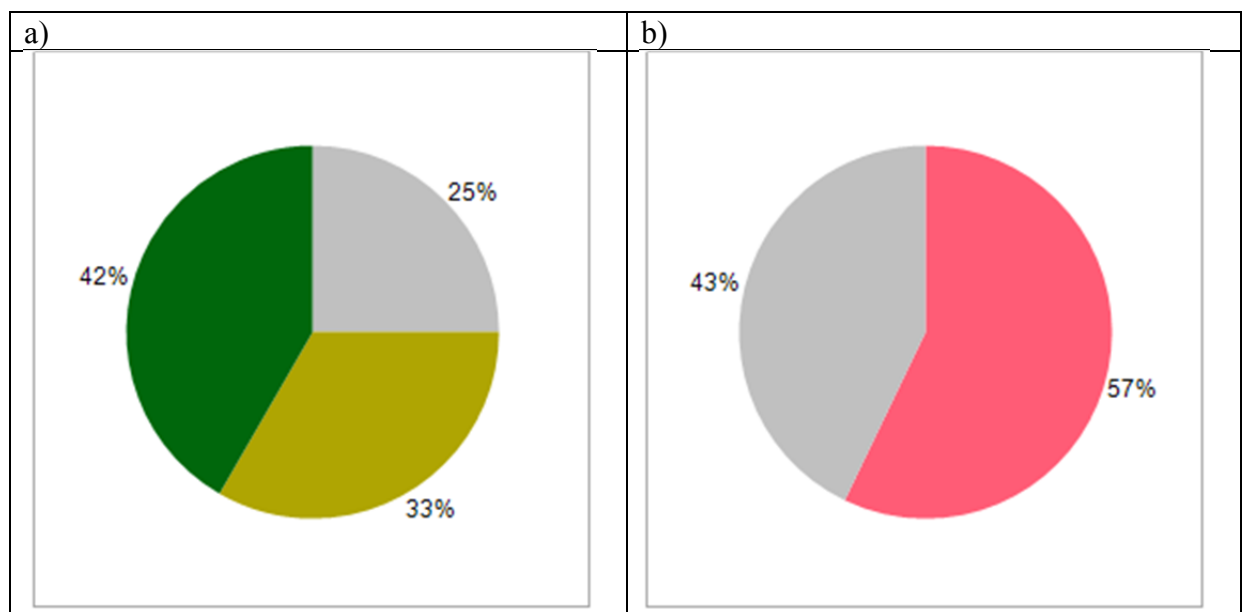


Figure 3. Distribution of respondent data on a) task-oriented and b) human-oriented leadership approach. Case Study Company A. Colors: ■strongly agree, ■agree, ■neither agree or disagree, ■disagree, ■strongly disagree.

Results are displayed in Figure 3. Overwhelming majority was in agreement with statements describing task-oriented practices by leadership while a quarter was in the grey area. None of respondents showed disagreement that leadership implements task-oriented approach. In support to that 57% disagreed that leadership in Company A is about human-oriented style as illustrated in Figure 3-b. Interesting fact was observed here: 43% of answers associated with human-oriented leadership style were neither agree or disagree.

On one hand the vast majority recognized peculiarities of task-oriented approach and 57% disagreed with human-oriented practices. Big part of answers in neutral zone might

indicate that leadership does not have very hard and unsocial task-oriented approach and might seldom carry out human oriented actions.

4.3 Analysis of leadership core competencies relevant to crisis management. Case Company A

Employees in case study Company A were offered to evaluate certain leadership skills which are relevant to management during crisis period. Selection of the skills was based on literature data and earlier research on crisis leadership (Boin et al., 2005; Hwang and Cameron, 2008; James and Wooten, 2005). In total eight leadership skills were identified and proposed for evaluation in this study. This include ability to: 1) build trustful relations; 2) identify organizational gaps, 3) take responsibility and act wise, 4) sense crisis, 5) learn from crisis, 6) set priorities, 7) evaluate risk properly and 8) maintain good communication.

Table 1 summarizes data collected and contains detailed break-down of answers per skill or ability.

Table 1. Quantitative data on leadership abilities relevant to crisis management. Case Study Company A

| Ability to | Strongly agree,% | Agree, % | Neither agree or disagree, % | Disagree, % | Strongly disagree, % |
|--|------------------|----------|------------------------------|-------------|----------------------|
| Build Trustful relations | - | 27 | 20 | 53 | - |
| Identify organizational vulnerabilities | 21 | 67 | 13 | - | - |
| to take responsibility and act wise | 56 | 44 | - | - | - |
| sense crisis and stay “on the ground” | 47 | 42 | - | 11 | - |
| learn from crises | - | 25 | 38 | 38 | - |
| prioritize and set an example | - | - | 43 | 57 | - |
| properly assess the full range of risks | - | - | - | 67 | 33 |
| to maintain good communication internally and externally (with stakeholders and media) | - | - | 30 | 40 | 30 |

In order to perform analysis of competencies and identify potential gaps and points of attention for leadership the following approach has been taken: respondent answers supporting statement given for evaluation were summed up (strongly agree + agree) and plotted per competence. A threshold for leadership to possess a certain competence was set to 50% for this study. This means that at least 50% of respondents should agree that leadership has a certain competence, ability or skill. Value of 50% was chosen empirically hypothesizing that at least half of the employees should support the statement. If degree of support is more than 50% we consider that leadership indeed has a skill relevant to crisis management. Competences with respondent support below 50% indicate that leadership does not have strong position in a particular area and such a competence requires attention.

Figure 4 shows visualization of results obtained after competences analysis. Only three out of eight leadership abilities relevant to crisis management obtained more than 50% of respondent approval (numbers 2, 3 and 4).

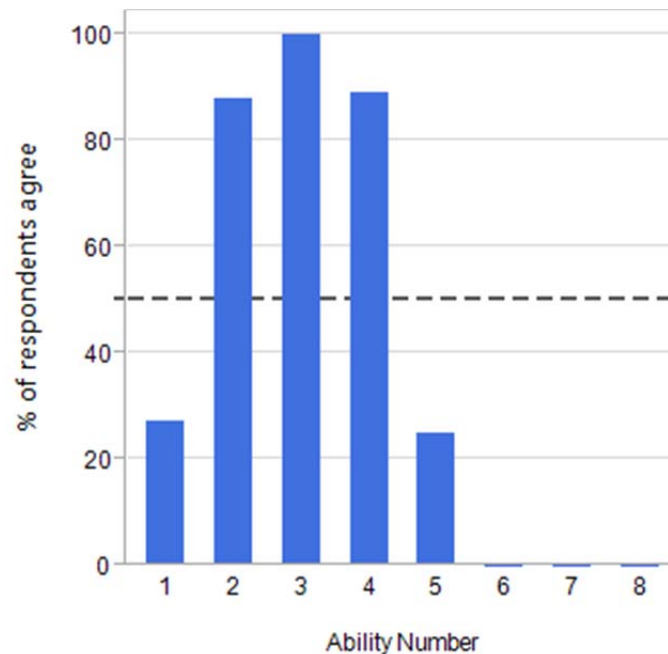


Figure 4. Analysis of competences relevant to crisis management. Case Study Company A. Numbers refer to leadership ability to: 1) building trustful relations; 2) identify organizational gaps, 3) take responsibility and act wise, 4) sense crisis, 5) learn from crisis, 6) set priorities, 7) evaluate risk properly and 8) maintain good communication.

These abilities include identification of organizational vulnerabilities, ability to act rapid and wise and ability to sense crisis. Leadership of Company A has strong positions in mentioned areas because overwhelming majority of employees showed support in the range of 80-100%. In contrast to that an ability to build trustful relations scored only 27% of support indicating that leadership needs to work hard to improve on this direction.

Previously we have shown that leadership in Company A implements leadership approach shifted towards transactional direction. In addition to that employees perception was that leadership is more autocratic and mainly task-oriented. All these factors might contribute to creation of unhealthy and extremely competitive environment which does not facilitate trustful communication between the team members.

Three competences relevant for leadership during crisis time score zero support as shown in Figure 4. This includes ability to prioritize and set example, properly assess the full range of risks and ability to maintain good communication internally and externally. Above mentioned areas require immediate attention and corrective actions by leadership.

The fact that none of employees gave positive answer in these areas indicates very weak leadership skills and probably lack of attention in the mentioned areas. It could have been expected that leadership with shift to autocratic style would not get high score on ability to set example. Thus, the data obtained for analysis if autocratic and democratic styles and during analysis of leadership competences is in a good agreement.

Because leadership of Company A was shown to be more task-oriented it could have been anticipated that the task-oriented leadership would not score high on ability to maintain communication internally and externally. Data in fact supports this hypothesis. Because leaders with less focus on human and more focus on task might have difficulties in maintaining good communication.

Summary of results obtained from empirical data collection on Company A leadership and competence analysis:

- Leadership of Company A applies mostly transactional leadership style than transformational style
- Autocratic behavior prevails over democratic in Company A leadership
- Leaders are significantly task-oriented
- Three out of eight competences relevant to crisis management show strong leadership positions (identification of organizational gaps; taking responsibility and acting wisely; ability to sense crisis)
- Two competences relevant to crisis management need adjustment (ability to build trustful relations; ability to learn from crisis)
- Three competences require immediate corrective actions (ability to set priorities, ability to evaluate risk properly and ability to maintain good communication)

4.4 Case study Company B

Company B chosen for the case study is a small size enterprise that comprises of eleven employees and the general director which can be considered as a leader for the current study.

The case study company is active in the area of business travel solutions (service sector).

4.5 Analysis of leadership style. Case Company B

We performed analysis of leadership style in Company B in the same way at it was previously described for the case study Company A. First analysis of leadership style in relation with transactional or transformational approach was carried out.

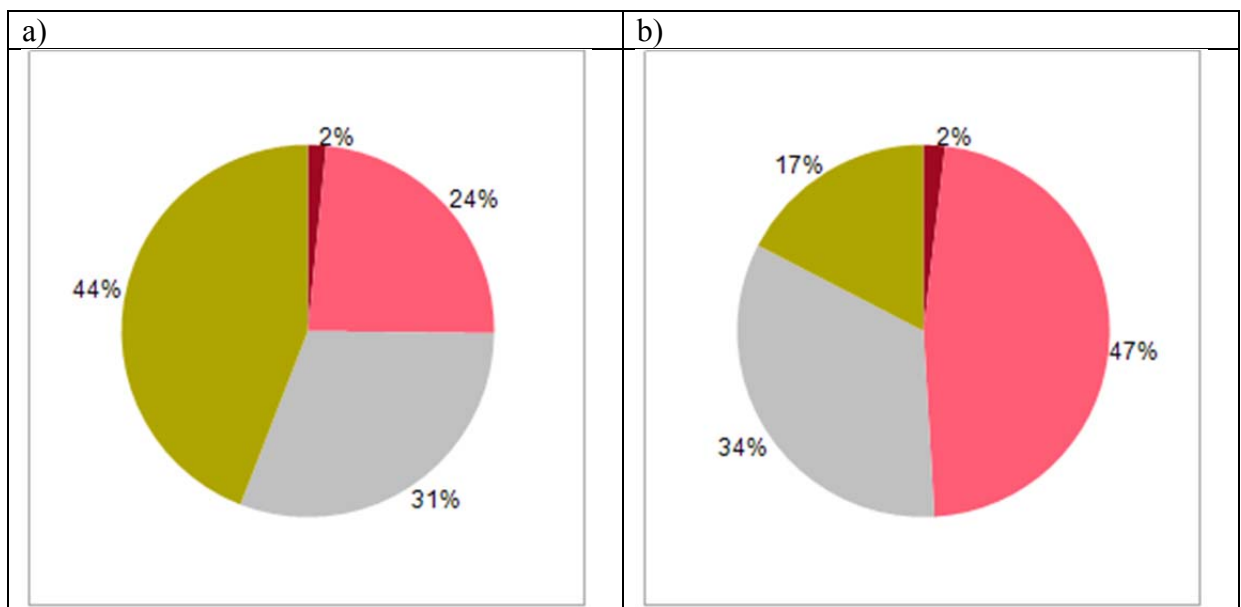


Figure 5. Distribution of respondent data on a) transactional and b) transformational leadership styles. Case Study Company B. Colors: ■strongly agree, ■agree, ■neither agree or disagree, ■disagree, ■strongly disagree.

Figure 5 displays distribution of respondent feedback on statements related to transactional and transformational leadership styles. According to the data obtained from question related to transactional style 44% of employees agree that current company leadership demonstrates this approach with 31% neutral and rest disagreeing with the proposed statements. In comparison with case study Company A where 78% of respondents pointed out to transactional style in the case of Company B the situation is less categorical.

The fact that answers distributed almost evenly between agree/neutral/disagree might indicate that leadership does not show pronounced features associated with transactional style. Perception among employees was very different and the gap between agree (44%) and disagree (26%) of 18% was significantly less compared to 70% in the case of Company A.

Data on transformational style showed that 47% of respondents agreed with the statements that leadership of Company B has transformational style, while 34% were neutral and 19% disagreed. The gap between agreed and disagreed on transformational style was 18% similar to that observed for questionnaire on transactional style. This might indicate that leadership of Company B does not practice pronounced transactional or transformational style. More likely that a combination of both styles is applied which evidenced from the absence of strong shift towards one style or another. Additional support to this hypothesis is given by the fact that in both series of questions (on transactional and transformational leadership styles) almost 1/3 of respondents had difficulties to agree or disagree.

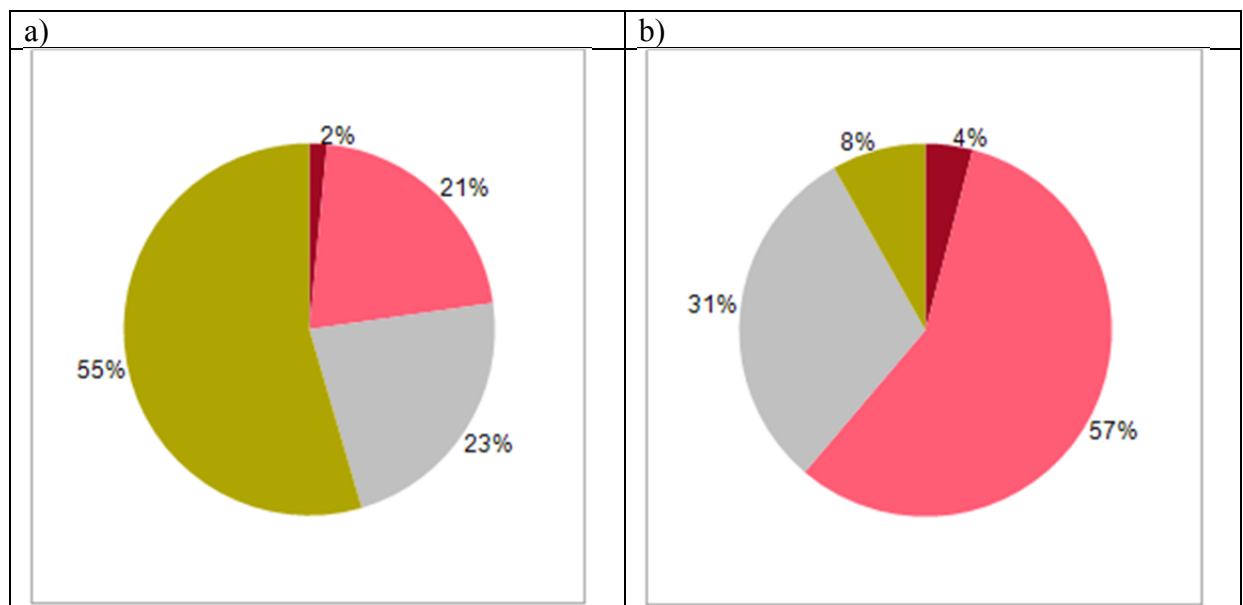


Figure 6. Distribution of respondent data on a) autocratic and b) democratic leadership styles. Case Study Company B. Colors: ■strongly agree, ■agree, ■neither agree or disagree, ■disagree, ■strongly disagree

Data displayed in Figure 6 demonstrates distribution of employee's perception on autocratic and democratic styles of leadership. Thus, 55% of employees pointed out on autocratic leadership style, while 23% of respondent answers showed disagreement with autocratic approach. Based on these results it we could expect low score on democratic leadership style as these two styles are opposite to each other.

As a matter of fact only 15% of Company B employees agreed that leadership has democratic features in running the company while 57% disagreed. We have noted that approximately 1/3 of employees showed neither agreement nor disagreement with transactional/transformational leadership statements and associated this observation with higher level of uncertainty in leadership style. In case of autocratic/democratic questionnaire a fraction of employees with neutral answers was in the range of 23-31%. Results observed for autocratic/democratic leadership style analysis indicate with high level of certainty that leadership style is shifted towards autocratic behavior similar to the case of Company A.

Third part of the study was dedicated to analysis of respondent answers to the statement related to task or human-oriented leadership behaviors.

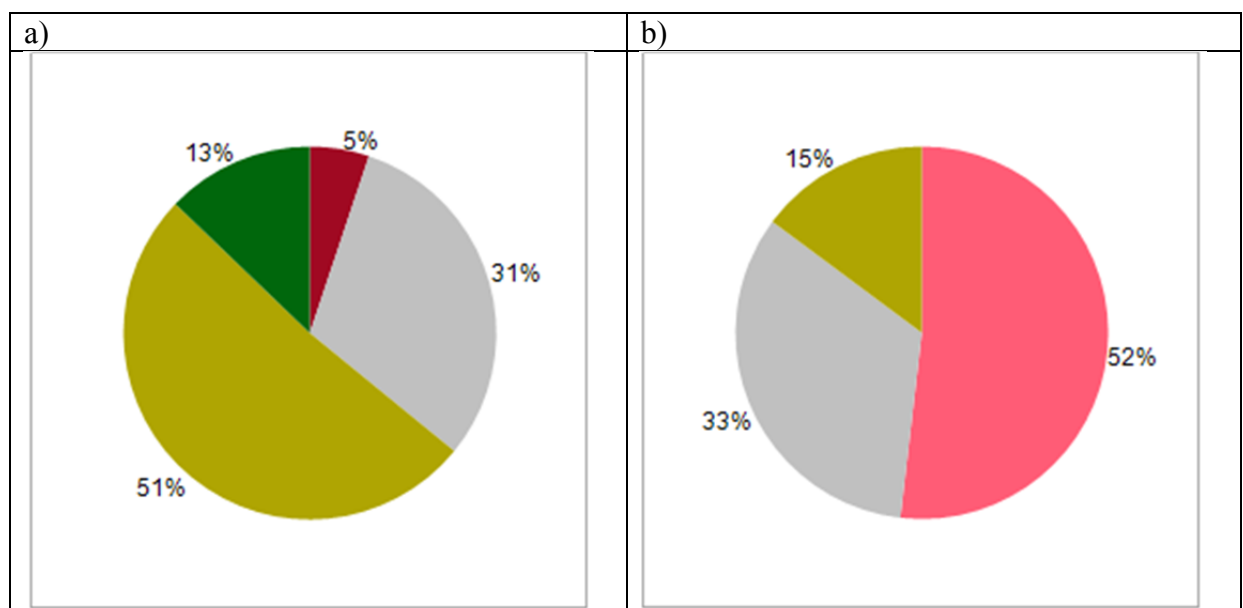


Figure 7. Distribution of respondents data on a) task-oriented and b) human-oriented leadership approach. Case Study Company B. Colors: ■strongly agree, ■agree, ■neither agree or disagree, ■disagree, ■strongly disagree.

Figure 7 illustrates the results obtained. 64% of company B employees think that leadership is more task-oriented with only 5% having showed disagreement. In agreement with this results only 15% of employees agreed that leaders are human oriented (Figure 7-b).

Similar to transactional/transformational style data approximately 30% of employees could not categorize if they agree or disagree with proposed statements. A potential explanation for that might be that employees previously were not involved into similar leadership studies and therefore were not certain about answers. On the other hand, it might also be the case that leadership changes behavior periodically. Due to that 1/3 of employees could not easily recognize a certain behavioral style. Nonetheless the data obtained indicate that leadership of Company B is much more task-oriented than human oriented.

4.6 Analysis of leadership core competencies relevant to crisis management. Case Company B

Employees in Case Study Company B were also offered to evaluate certain leadership skills which are relevant to management during crisis period. As mentioned above the selection of the skills was based on literature data and earlier research on crisis leadership (Boin et al., 2005; Hwang and Cameron, 2008; James and Wooten, 2005). In total eight leadership skills were identified and proposed for evaluation in this study. This include ability to: 1) build trustful relations; 2) identify organizational gaps, 3) take responsibility and act wise, 4) sense crisis, 5) learn from crisis, 6) set priorities, 7) evaluate risk properly and 8) maintain good communication. Table 2 summarizes data collected and contains detailed break-down of answers per skill or ability.

Table 2. Quantitative data on leadership abilities relevant to crisis management. Case Study Company B.

| Ability to | Strongly agree, % | Agree, % | Neither agree or disagree, % | Disagree, % | Strongly disagree, % |
|--|-------------------|----------|------------------------------|-------------|----------------------|
| Build Trustful relations | 24 | 48 | 29 | - | - |
| Identify organizational vulnerabilities | 13 | 62 | 15 | 10 | - |
| to take responsibility and act wise | - | 46 | 43 | 11 | - |
| sense crisis and stay “on the ground” | | 28 | 41 | 28 | 3 |
| learn from crises | - | 15 | 33 | 52 | - |
| prioritize and set an example | | 63 | 32 | 5 | - |
| properly assess the full range of risks | | 15 | 44 | 37 | 4 |
| to maintain good communication internally and externally (with stakeholders and media) | - | 43 | 43 | 14 | - |

The following approach was taken to analyze the data on crisis leadership competences and determine strengths and potential gaps. As it was done for the Case Study Company A respondent answers supporting given statement were summed up (strongly agree + agree) and plotted per competence.

A threshold for leadership to possess a certain competence was set to 50% for this study. This means that at least 50% of respondents should agree that leadership has a certain competence, ability or skill. Value of 50% was chosen empirically hypothesizing that at least half of the employees should support the statement. If degree of support is more than 50% we consider that leadership indeed has a skill relevant to crisis management. Competences

with respondent support below 50% indicate that leadership does not have strong position in a particular area and such a competence requires attention

Figure 8 illustrates the results obtained for leadership competence analysis.

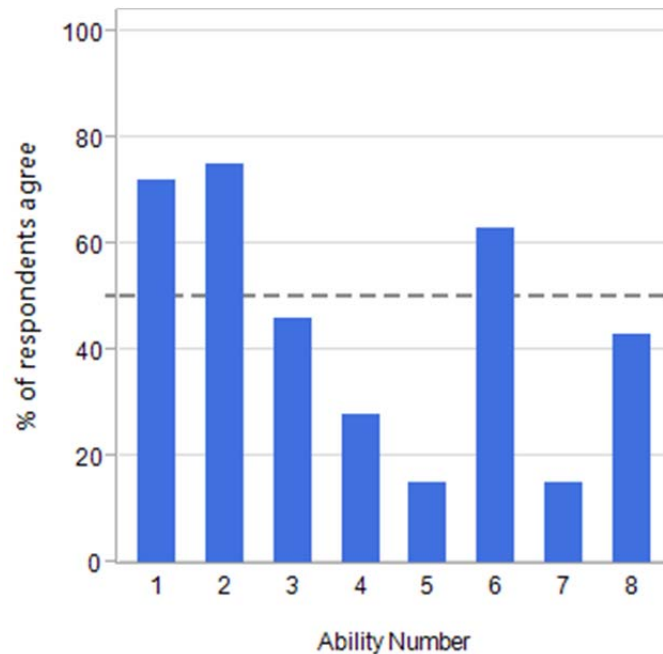


Figure 8. Analysis of competences relevant to crisis management. Case Study Company B. Numbers refer to leadership ability to: 1) building trustful relations; 2) identify organizational gaps, 3) take responsibility and act wise, 4) sense crisis, 5) learn from crisis, 6) set priorities, 7) evaluate risk properly and 8) maintain good communication.

Despite the fact that three out of eight competences score more than 50% as it was the case for the Company A, the distribution of results was different from what we observed in Company A. Competencies 1, 2 and 6 scored more than 50%. This includes abilities such as building trustful relation within the team, identification of organizational vulnerable and prioritization and setting an example.

Competence #6 received slightly more than 60% of employee agreement and taking into account small samples size (only 11 employees) and hence larger error in quantification of results we cannot state with high confidence that leadership has strong positions in this area of competence. The same can be applied to competences #3 (ability to take responsibility and act wise) and #8 (ability to maintain communication) which received slightly more than 40% of answers on agreement side. Three out of eight competences received score significantly

lower than 50% and therefore require attention. It is worthwhile mentioning that none of the competences of leadership of Company B received zero score as it was the case for the Company A (competences 6-8). This might be due to the difference in leadership style in Company A and B or can also be caused by a larger sample size (11 employees in company B vs 6 employees in company A) and hence higher probability of showing diversity in opinion.

Based on these results we can conclude that leadership of Company B is strong in competences building trustful relations and identifying organizational vulnerable points. Competences such as sensing crisis (#4), ability to learn from crisis (#5) and ability to properly evaluate risk (#7) require improvement as illustrated in Figure 8. Finally competences such as ability to take responsibility and act wise (#3) as well as ability to maintain communication (#8) are next to borderline and require further investigation. At this moment it is not possible to draw a solid conclusion without collecting more experimental data and additional analysis.

Less polar answers of respondents on leadership crisis skill correlate with data collected for determination of leadership styles where $\sim 1/3$ of employees answered neutrally. It also appeared in the distribution of answers on crisis skill set and therefore data analysis was more complicated than in case of company A. Data of respondents from company B on crisis skill set correlate with data on transactional/transformational style. Employees to a less degree pointed out onto transactional style and thus such competences as building trust relations and ability to prioritize and set example got higher score. These findings about correlations are empirical and require much more experimental data and deeper investigation.

Summary of results obtained from empirical data collection on Company B leadership and competence analysis:

- Leadership of Company B applies mostly transactional leadership style than transformational style
- Autocratic behavior prevails over democratic in Company B leadership
- Leaders are task-oriented
- Three out of eight competences relevant to crisis management show strong leadership positions. Leaders are strong in building trustful relations; identifying organizational gaps and in setting priorities
- Two competences relevant to crisis management are at the borderline and need some attention (but not critical at the moment). This include ability to take responsibility and act wise and ability to maintain good communication
- Three competences require corrective actions and improvement: ability to sense crisis, to learn from crisis and to evaluate risk properly

4.7 Comparison of results on leadership study for Company A and B

During evaluation of data obtained from questionnaire on leadership of Companies A and B several interesting similarities have been noticed. It seemed important to compare these similarities in order to potentially identify more general trends in leadership behavior. Identification of general trends and overlapping peculiarities might be useful for developing solutions for improvement interaction between leadership and employees and also help leaders do their job in a more efficient way (especially during time of high volatility or even crisis times).

We identified that both Leadership of Case Study Company A and Company B mostly practice transactional style. Employees of both companies pointed out on a system of reward and punishment, little flexibility in leadership style and lack of encouragement for alternative approaches. The author considers that some practices from transactional style can be very

useful especially during crisis time such as adherence to a certain style – but it should not be transformed into narrow-mindedness and reluctance to change for better. Despite the fact that the data from Company B showed no so strong opinion of respondents as it was the case for Company A still most of employees pointed out to transactional style, autocratic behavior and strong shift to task-orientation by leaders. A larger fraction of neutral opinion in Company B might be caused by almost two-fold larger sample size or indeed point out to less pronounced practices applied.

Analysis of competences relevant to crisis management revealed that leadership of Company A and B is strong in three out of eight competences chosen in this study. This number in fact shows that leadership of both Company A and B might need to improve their competences to be competitive during crisis time and to drive business to success. Employees indicated that leadership is strong in identifying organizational gaps and this is what two Companies have in common on a positive side. From the competences which require attention/correction/immediate action employees of both companies pointed out to competence related to learning from crisis and evaluate risks properly. These two competences might be the most important for the businesses to successfully go through crisis times and times of high instability.

There are several potential explanations for such a similarity in leadership behavior and overlap in competences levels: 1) cultural, 2) crisis-caused and 3) knowledge-caused (leadership unawareness of recent development in leadership practices). In fact all three factors might contribute to the leadership style and govern leadership behavior. In the Chapter 2.7. Russian national culture and it's likely effects on Russian leadership culture we discussed the cultural specifics of the Russian business environment and its potential influence on leadership behaviors. In the light of the research findings from empirical study

on case companies A and B and taking into account the similarity in leadership behavior we might assume that the cultural orientation has a strong effect on the leadership behavior.

Even if the leaders are competent about the most modern trends in ruling the business and the teams (like transformational leadership style) the national culture still has a dominating effect which determine the ultimate choice of the leadership approach.

For example, it has been found that the leadership in company A and in company B chooses mostly transactional rather than transformational approach. According to Hofstede's PDI and UAI indices we would anticipate a strong hierarchy in the organization with a big gap between the employees and the manager. Also, the subordinates would then expect more control from the manager and to be told what to do rather than having a need for freedom and empowerment. From this perspective, the fact that both companies score low on transformational style is not a surprise. The same can be concluded from the data on autocratic-democratic and task/human-oriented approach analyses. Both companies leadership have more task orientated and autocratic styles – this result correlates with the cultural peculiarities of the Russian business environment and Hofstede's results (see chapter 2.7 of the thesis for more details).

Considering cultural implications on the choice of the leadership style we should not rule out reasons that are caused by harsh economic conditions (crisis time). The fact that the current economic situation leaves much to be desired and the national economy shows a clear yearly decrease the leaders is expected to make tough decisions on a regular basis and literally fight for business survival. Under such conditions there is an extra burden on leaders associated with social and economic responsibilities for the employees. Thus, results from the empirical studies might partially be explained by the crisis induced reasons.

As revealed by the analysis of relevant leadership competencies the leadership of companies A and B has only 3 out of 8 important competencies. Thus, knowledge-based reasons might also be involved in explanation of the results obtained.

Despite the fact that there might be a strong influence of the cultural peculiarities on the choice of leadership approach and style in ruling the business additional study is required to better discriminate among all factors (culture, crisis or knowledge) and shed light on the root causes. More case studies are needed to collect more data in order to better understand potential cultural reasons. Analysis of similar studies conducted before data is important to exclude crisis caused behaviors and finally interviews with leaders to be conducted in order to realize their awareness of the most recent development in best leadership practices to suggest appropriate training and or further education. The leadership approach should not only rely on the most recent progress in this field but also take into consideration the cultural orientations to achieve the best results.

5. Summary and conclusions

Leadership styles and leadership competences become more and more important and the role of leaders in overall business success is hard to overestimate. Especially nowadays when the financial situation is very volatile and future is very hard to predict leadership performance gets increased importance. During crisis times leader's functions might have crucial effect on company's future.

This study provided an overview of different leadership concepts and theories including trait, contingency, behavioral theories as well as transactional and transformational leadership theories. Certain aspects of different leadership definitions were discussed. We reviewed cultural peculiarities in the Russian business environment and its potential impact on the leadership approach. With respect to the aim of this study analysis of relevant literature on types of business crisis as well as on management during crisis times has been performed. On the basis of literature data several core competences/abilities were determined which are relevant to leadership during crisis times. This includes ability to 1) building trustful relations; 2) identify organizational gaps, 3) take responsibility and act wise, 4) sense crisis, 5) learn from crisis, 6) set priorities, 7) evaluate risk properly and 8) maintain good communication internally and externally.

For analysis of leadership style and competences two small size enterprises were selected (number of employees 6-11 people). A questionnaire was designed to collect empirical data on leadership and evaluate leadership competences. Focus was paid to differentiation between transactional and transformational styles, analysis of autocratic/democratic leadership behavior and evaluation of task- and human leadership orientation. Special emphasis was made on evaluation of core leadership competences relevant to crisis management. Based on respondent answers leadership style in case study Company A and Company B was determined as well as leadership behaviors and orientation towards task or

human. An empirical approach was proposed to analyze questionnaire data on core leadership competences to reveal strong sides and points of attention. As a result of that, analysis of the questionnaire data on competences enabled identification of strong and weak positions of leadership with respect to crisis management. Based on the analysis of results, several points of attention and action for leadership were determined and relevant improvements suggested.

Comparative analysis of case study Companies A and B revealed similarities in leadership style and behaviors. Plausible explanation for these similarities was hypothesized and discussed. Potential reasons might include culture, crisis-caused and knowledge-caused factors. Cultural peculiarities were assumed to have a strong influence on the choice of the leadership approach even during times of high volatility (crisis times). Recommendation for future research to better understand general trends and suggest further improvements was proposed.

In conclusion it is important to note that results obtained showed that the approach taken in this study enables identification of peculiarities of leadership style in small size enterprises though a questionnaire and data analysis. Leadership behavior can also be evaluated with respect to autocratic/democratic and task/human-oriented styles. The methodology proposed in the current study based on non-parametric statistical analysis of questionnaire data and can be used for determination of strong sides as well as pointing out to potential gaps in leadership competences. The method has been validated though semi-quantitative evaluation of core leadership competences relevant to crisis management.

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7. APPENDIX

- Empirical case study of the chosen small sized enterprises is based on a quantitative research and the research data which is acquired using a survey questionnaire on leadership

Lietz, Petra. 2008. "Questionnaire Design in Attitude and Opinion Research: Current State of an Art " *Priorisierung in der Medizin* 655(13).

- Respondents were asked to provide their answers by rating the degree to which they agree or disagree with a given statement about leadership. Rating scale 1-5 will be applied (1– **strongly disagree**, 2 – **disagree**, 3 – **neither agree or disagree**, 4 – **agree** and 5 – **strongly agree**). Data generated by this method is suitable for non-parametric statistical analysis.

Boynton, Petra, and Trisha Greenhalgh. 2004. "Selecting, designing, and developing your questionnaire." *BMJ*. 328(7451):1312–15.

Table S1. Identifying leadership style and leadership skills

| | Question | Hypothesis to validate |
|----|--|------------------------|
| 1 | Leadership uses a clear system of reward and punishment: if the task accomplished accurately and on time – an employee is rewarded. If not – sanctions or penalties might be applied | Transactional style |
| 2 | Leadership focuses on long-term goals and takes care about future performance | Transformational style |
| 3 | Leadership behavior is more permanent rather than adaptive to a certain circumstances and situation | Transactional style |
| 4 | Motivational factors are important for my leadership. Leadership tries to understand motivation of employees and listen to individual concerns | Transformational style |
| 5 | Leadership uses a system of rigid control over employees | Transactional style |
| 6 | Leadership invests resources for professional and individual growth of employees | Transformational style |
| 7 | Leadership focuses on values and creates atmosphere of trust and responsibility within the team | Transformational style |
| 8 | Leadership does not encourage alternative approaches in task accomplishment than those agreed upon with leaders (procedures and details are very important) | Transactional style |
| 9 | It is easy to share ideas openly with leadership even if the proposed ideas are different from current practices | Transformational style |
| 10 | Leadership drives work courageously, leading by example and inspire individuals and team members | Transformational style |

Table S2. Determination of leader's behavioral peculiarities discrimination between task/human orientations.

| | Question | Hypothesis to validate |
|---|--|-------------------------------|
| | <i>Behavioral peculiarities: autocratic vs. democratic</i> | |
| 1 | Leadership often imposes will to employees and forces to deliver on their goals | Autocratic |
| 2 | Leadership appeals to materialistic needs of employees as main motivational instrument | Autocratic |
| 3 | My leaders encourage empowerment and are not afraid of delegate ownership | Democratic |
| 4 | Leaders see constant opportunities for growth despite current level performance of employees | Democratic |
| | | |
| | <i>Human oriented vs. task oriented</i> | |
| 5 | My leader is focused on task accomplishment and rewards only successful employees | Task-oriented |
| 6 | My leader helps to overcome difficulties and facilitates learning of new skills | Human-oriented |

Table S3. Determination of leadership skills most relevant for crisis leadership.

| | Question | Ability to validate |
|---|---|---|
| 1 | Leaders recognize when openly express and share their concern and needs openly | Ability to create trustful relations within the team |
| 2 | Leader points out main issues during high uncertainty time | Ability of leader to identify unobvious organizational vulnerabilities |
| 3 | Leader hesitates before taking decision and does not often express confidence | Ability to take responsibility and act wise and rapid when required |
| 4 | Leader is aware of current organizational difficulties and external circumstances | Ability to sense crisis and stay "on the ground" |
| 5 | Leader promotes continuous learning from experience | Ability to learn from crises |
| 6 | Leader drives organization courageously and lead by example | Ability to prioritize and set an example |
| 7 | Leader is open to learn employees view on the situation and values employees' opinion | Ability to properly assess the full range of risks |
| 8 | Leader possess high skills of self-control and communicates responsibly internally and externally even during hardest times | Ability to maintain good communication internally and with stakeholders and media (if required) |